



# “IOL Chemicals & Pharmaceuticals Limited Q1 FY-22 Earnings Conference Call”

**August 20, 2021**



**MANAGEMENT: DR. SANJAY CHATURVEDI -CHIEF EXECUTIVE OFFICER,  
IOL CHEMICALS & PHARMACEUTICALS LIMITED  
MR. PRADEEP KHANNA – CFO, IOL CHEMICALS &  
PHARMACEUTICALS LIMITED**

**MODERATORS: MR. ANUBHAV ADLAKHA – ANTIQUE STOCK BROKING  
LIMITED**



---

**Disclaimer:** *Certain statements in this transcript concerning our future growth prospects are forward-looking statements, which involve number of risks and uncertainties that could cause our actual results to differ materially from those in such forward-looking statements. The Company do not undertake to update any forward-looking statement that may be made from time to time by us or on our behalf.*

---

**Moderator:** Ladies and gentlemen good day and welcome to IOL Chemicals & Pharmaceuticals Limited Q1 FY22 Earnings Conference Call hosted by Antique Stock Broking Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anubhav Adlakha from Antique Stock Broking Limited. Thank you and over to you sir.

**Anubhav Adlakha:** Good afternoon everyone. Hope everybody's safe and healthy. Thank you for joining us on the IOL Chemicals Pharmaceutical Q1 FY22 earnings call. Today we have with us, Dr. Sanjay Chaturvedi – Chief Executive Officer and Mr. Pradeep Khanna – CFO with us from the senior management. We begin the call with opening remarks from the management, followed by an interactive question and answer session. I will now hand over the call to Dr. Chaturvedi for his opening comments. Thank you and over to you sir.

**Sanjay Chaturvedi:** Thank you. Good afternoon everyone. Thank you all for taking the time to participate in this earnings call. I trust you have read the earnings document and I'm certain that you will have questions. But before we take up these questions, I would like to shed some light on the business and share my perspective on the performance for the quarter that has gone by and then subsequently my colleague Mr. Khanna, the CFO will then provide a lot more granular details on the financials.

IOL Chemicals and Pharmaceuticals is one of the leading API bulk drug manufacturers and we are a significant player in the field of speciality chemicals. We are the largest producer of Ibuprofen with an installed capacity of 12,000 metric tons per annum. We have complete backward integration of all the major chemicals that are required to produce Ibuprofen. We currently hold about 35% of the world market share in this product ibuprofen. We are also amongst the top producers of Ethyl Acetate and we have a manufacturing capacity of just over 100,000 metric tons per annum. Ethyl Acetate is a speciality product that has wide applications industries like pharmaceuticals, ink, packaging adhesive, surface coatings etc. Our company is also the second largest producer of Iso Butyl Benzene which is the key intermediate for Ibuprofen. We hold about 30% market share for this product. IOL Chemicals and Pharma has successfully completed in this quarter the installation of our new manufacturing facility which is Unit-10 where we manufacture multiple pharma products including Fenofibrate Lamotrigine and UDCA to cater to the growing demand for these products. The installation of the new manufacturing facility Unit-9 to manufacture Gabapentin and other pharma products is slightly



delayed because of the COVID second wave that happened. We are expected to complete this in the third quarter of this year without any cost overruns and all the CAPEX that we are doing is currently being met through internal accruals.

We are delighted to announce that our credit rating has been upgraded one notch for the banking facilities availed by the company. Our long-term which is the fund based working capital rating has been revised from CARE A to CARE A+ and the short term which is non-fund based working capital rating has gone from CARE A1 to CARE A1+. We have R&D facility that is approved by Department of Scientific and Industrial Research, DFIR. We are equipped with all the advanced analytical instruments for conducting research.

Coming into financials; the company on a basis recorded 12% growth in total income. However, the EBITDA has declined by about 27% on a year-on-year basis, on account of the stress demand primarily due to the second COVID wave globally. With this I would like to hand over to my colleague Mr. Pradeep Khanna, the CFO who will be talking more in detail. Over to you sir.

**Pradeep Khanna:**

Thank you Sanjay Chaturvedi. Good afternoon everyone. A warm welcome to IOLCP Quarter 1 financial year '22 earnings call. I will take you through mentioned highlights for the Quarter 1 financial year '22. The total revenue for the quarter increased by 12% to Rs. 524 Cr as compared to Rs. 466 Cr in the Quarter 1 of financial year '21. In quarter first of financial year '22 Rs. 116 Cr as against Rs. 158 Cr reported in quarter first of financial year '21. EBITDA margin in quarter first of financial year '22 has dropped to 22% from 34% in Quarter 1 of '21. Depreciation for the quarter was Rs. 10 Cr, finance cost stood at 1.7 Cr in quarter first of financial year '22. In this quarter the company reported exceptional item amounting Rs. 13.93 Cr, representing the one-time cost toward write-off the compensation favor to the lenders against sacrifice made by them in financial year '14-15, on account of restructuring done under JLS route. Profit after tax for quarter first of financial year '22 stood at Rs. 67 Cr as against Rs. 128 Cr during quarter first of financial year '21. PAT margin for Quarter 1 was 13% as compared to 27% in quarter first of financial year '21. With this I would now request the moderator to open the forum for question answer session. Thank you very much.

**Moderator:**

Thank you very much. We even begin the question-and-answer session. The first question is from the line of Manish Poddar from Nippon India AF.

**Manish Poddar:**

So, I have three questions. First one is probably if you could guide me what is your outlook for the offtake for Ibuprofen for the FY22? And were there any shipment delays which happened in Q1 which we expect to happen in Q2?

**Sanjay Chaturvedi:**

Let me answer that question by saying that overall, the demand softened about 15% in this quarter versus the previous year. We do think this is anomaly and a blip. This is not a structural shift in demand. Our outlook for Ibuprofen for the rest of the year is that Q2 we expect to be muted just like Q1 but the demand will pick up from our export customers in Q3 and Q4. Second part of your question was were there any delayed shipments in Q1 that spilled over into Q2, so,



I don't call them delayed shipments. Essentially some orders got deferred. See what is happening on the shipment side is the prices for shipping have gone up dramatically. Today if I compare from 6 months ago, the shipment costs are 200%-300% more. Therefore, what customers are doing is, they are trying to make good with whatever inventory they have and essentially push any off-take hoping that by the end of this quarter when the Christmas season deliveries are over in the Western part of the hemisphere by then we do expect to see some normalization in shipping rates. The short answer to your question is, no we didn't lose any orders or we didn't have any shipment delays. These were more deferments and that will be rolled from one quarter to the other.

**Manish Poddar:** The large part of let's say a big contraction which you've seen in the pharma segment, it's largely led by Ibuprofen and the other pharma products, there the losses are marginal. Is that a fair understanding?

**Sanjay Chaturvedi:** Well, yes. That is a fair understanding. In fact, if you look at our non-Ibuprofen API business, that has grown. So, it depends on which number you want to look at but, in this year, if I look at non-Ibuprofen API business, this quarter we delivered about 63 crores of business versus 45 crores in the first quarter of the preceding year.

**Manish Poddar:** Are we incurring loss there right now, our utilization in North of 45%-50% now and may be started making money up there?

**Sanjay Chaturvedi:** Yes, we have just about broken even on this. I think we will be pushing into exports. The challenge here for us right now is for the regulatory approvals. Even now the live audit for India have not really started full on. So, I think this quarter we will be having regulatory approvals and audit from the Russian authorities for example. The customer audits are ongoing but the audits from the regulatory bodies are getting pushed out and till those approvals come in place, it'll be really hard to push the exports.

**Manish Poddar:** Just two smaller follow-ups. One is on this exception item, are we largely done with this item or is there any amount still in litigation?

**Sanjay Chaturvedi:** No, we are done. This is for the one-time payment and we have settled. We have completed this transaction. There will be no subsequent payments on this regard.

**Manish Poddar:** So, one last one, now given that you've been in the company now for more than a quarter or so. Probably can you just highlight let's say 2 or 3 key focus areas? I believe there was a big CAPEX plan which the company had to announce. Just want to understand from a three year per se what is the roadmap, just as the broader 2-3 key areas if you could highlight that will be helpful.

**Sanjay Chaturvedi:** So, as I've said in the past as well, we are in the midst of a transformation. We are in the midst of a true business transformation where rather than look at what we are doing on a month by month and a quarter-by-quarter basis, one needs to kind of take a step back and see over a 2-3-



year time period. If you look at what are the things that we have said we will do and what are the things that we are trying to do. Number one, we are going to do de-risk the company from Ibuprofen, not to say that Ibuprofen, I think it'll continue to be our flagship product. We will continue to maintain global leadership position in that product. But we do see that because we have a large leadership position in that particular molecule the growth options are somewhat limited. So going forward what we will be doing is, adding more and more products to our portfolio and growing the business of those products starting in India. And then as we get the regulatory approvals expanding into the export market. Now the only way you can add more products to your portfolio is through technology. We are really taking a very strong focus to look at technology and that will be the cornerstone for the growth. And you're right, we have capital that needs to be deployed but I am going to have a much higher level of asset utilization for my current plans before I announced that a new CAPEX plans.

**Moderator:** The next question is from the line of Alankar Garude from Macquarie.

**Alankar Garude:** My first question is, can you comment on recent Ibuprofen pricing trends and what would be your expectation for the next 12 months, especially in the context of muted demand in the first half?

**Sanjay Chaturvedi:** I would say two things, that one the prices have really bottomed out. We don't expect them to drop any further beyond where they are. That's the first message. The second message is going forward we do expect to see some recovery and that will mimic the demand recovery as well. This quarter we should expect the same flattened prices that we saw in Q1. But in Q3 and Q4 we should expect some upward movement in the Ibuprofen prices.

**Alankar Garude:** What would it our realizations as of Q1, the number which you said has bottomed out, what would be that number?

**Sanjay Chaturvedi:** So, we don't give out pricing information on a product-by-product level.

**Alankar Garude:** My other question is more of a question on the de-risking strategy. So one hand you said that you want to de-risk the company from Ibuprofen but on the other hand we also have plans to expand our presence in the regulated markets for Ibuprofen. So how should we look at these two points?

**Sanjay Chaturvedi:** If you look at my current capacity of Ibuprofen versus my actual production, there is enough of a differential that I can use that to cater to the enhanced demand that I would get from the export market. I don't expect to have any more CAPEX going into Ibuprofen for now. So essentially what we are talking is a two-pronged approach. One is milking of existing assets and the other is creation of new assets both on a product basis and manufacturing basis to be able to create more business from products other than Ibuprofen.



**Alankar Garude:** One of our key competitors in Ibuprofen has announced backward integration. Now apart from them being perhaps more cost competitive because of this, I am assuming that we would also be one of our customers for IBP and other raw materials. Do you foresee any impact of this on our business?

**Sanjay Chaturvedi:** We have a leadership position both in capacity and in backward integration. I am sure you will appreciate that decades of experience in Ibuprofen put us head and shoulders above the competition. Yes, I would actually say it is for the competition to catch up and we are pretty much prepared. We don't think it will have any negative impact on our business or financial performance.

**Moderator:** The next question is from the line of Vikram Singh, an Individual Investor.

**Vikram Singh:** I have one question, that our dependence on chemical has increased overtime so what's our way forward in that?

**Sanjay Chaturvedi:** Our chemical, our dependence on chemicals business has increased not because strategically we did that. It has more to do with the pricing and the pricing of the chemical product ethyl acetate and to do with the subdued demand of the pharma. As we grow our non-Ibuprofen pharma business to higher levels, you will see that this kind of volatility and the dependence on chemicals will actually go down. I have a stated intent that in a few years, chemicals should be no more than 40% of my total portfolio. That is an area in which we are striving towards. The intent of getting there is not through reduction of the chemicals business but really through increasing the pharma business.

**Vikram Singh:** Also, I would like to ask one more question regarding the utilization of all the facilities that we have?

**Sanjay Chaturvedi:** We have multiple plants so I would say that overall, the plant utilization ranges anything from 55%-60% all the way to 75%. That's the range of asset utilization and the chemical plant is running at about 100%.

**Moderator:** The next question is from the line of Ashish Thakkar from Motilal Oswal Asset Management.

**Ashish Thakkar:** Most of the formulation companies this quarter were saying there's some kind of pricing pressure, even the regulated market. So does that percolate to our API/intermediate business? How do we see this scenario panning out over the next say two to four quarters?

**Sanjay Chaturvedi:** So, as I said earlier Ashish you are spot on. There is a lot of pricing pressure on to the formulation companies in the regulated market. Some of that is being pushed back to us. We see minor impact of that on our Ibuprofen business. Our Ibuprofen business is a mix of India and exports. Within exports, we are exports to less regulated market and the regulated market and some of that has translated into not just subdued demand and subdued prices but we do believe that, that pricing



has bottomed out and therefore going forward, Q2 will be similar to Q1 but Q3 and Q4 will be at a positive improvement both in terms of demand as well as pricing.

**Ashish Thakkar:** In a way, you are also referring to the fact that even formulation price, any pressure might stabilize in the next two to three quarters. right?

**Sanjay Chaturvedi:** Yes.

**Ashish Thakkar:** In terms of our capital deployment going ahead. Since you said our chemicals is broadly operating at 100% utilization. So, if you could give just the percentage split where, how should we look at our capital allocation going forward?

**Sanjay Chaturvedi:** We are in the midst of doing that exercise and I think in the coming few months, we will be ready but broadly a lot more CAPEX is going to be deployed on the pharma side and the chemical side.

**Ashish Thakkar:** One last question. I am very sure you might have got this question a lot many times from the investors but on the China Plus One strategy do you feel, it's still a valid strategy to play or it was just a temporary phenomenon which played to the advantage of most of the Indian companies.

**Sanjay Chaturvedi:** That's a very tough one to answer Ashish because the success of this strategy really depends on what our customers want to do. We are not really in the driver's seat for this. What we are doing very aggressively is offering a China alternative. So, a lot of the products that we offer are an alternative to buying from China and we are trying to de-risk our business by buying as few having essentially lowering our dependence on China for raw materials and keep starting materials. Having said this, the China Plus One strategy to be successful in the real world and not just for IOL but for players at large is really dependent on a combination of what the companies do, what the customers do and the government policies. I think the government is doing their best by having, by incentivizing through a production linked scheme. I think several players have done their filings as have we. I really think strategically that is a right direction. How much of it is going to hold really depends on how China responds and how the customers behave.

**Ashish Thakkar:** From a therapeutic exposure point of view any new therapies you guys are targeting or any new chemistries you guys are working on now?

**Sanjay Chaturvedi:** So again, that's a work in progress on our strategy side and the portfolio and product selection side. In the coming few months we will be ready to roll out a strategy for the next couple of years.

**Moderator:** The next question is from the line of Monish Shah from Antique Stock Broking.



**Monish Shah:** Just a question on backward integration for our non-Ibuprofen products like FLU and Metformin and Valsartan. Any update over there in terms of where we stand in terms of capacity or any process integration?

**Sanjay Chaturvedi:** So, I would say I believe it and say we have made good progress on the technical evaluation side. So, the technical evaluation is complete. The work is in progress to really figure out what kind of backward integration advantage we really have. We are doing mapping of what kind of CAPEX would be required for this complete backward integration because you will appreciate that, if we put aside CAPEX for API without putting aside CAPEX for the intermediate the chain is as strong as the weakest link. In the next coming few months we will be ready to roll out the entire strategy of the therapeutic categories, the new products that we are targeting, what is our backward integration strategy in each of these and what is the CAPEX allocation that we will be doing in each of these buckets.

**Monish Shah:** Secondly, on you the US DMF filing so we intend to file more of these non-IBU products for the US DMF because I believe you were targeting more of exports revenue from developed markets. The question is, in terms of customer registration how is it moving?

**Sanjay Chaturvedi:** I would say directionally Monish the movement is in the right direction. The speed of those approvals and the speed at which we are moving has been impacted because of COVID. See there are certain customers who are doing online audit and not all customers have started doing online audits yet. The regulatory agencies like the Russian agency for example, we will be having their audit this quarter. They have adopted kind of a hybrid and online model. I think till the COVID crisis is over the whole approval process for exports will continue to be subdued not only for IOL but other players as well.

**Monish Shah:** You think there is a delay of let's say around 6 to 8 months and maybe in FY23 second-half onwards we will see a better traction from our non-IBU sales?

**Sanjay Chaturvedi:** Certainly, I think we are already seeing that traction. So, if you compare and see this quarter versus the previous quarter, we have gone from about 45 crores to about 63 crores. On a percentage basis this is a significant jump and we will continue to demonstrate that and you will be able to measure that maybe if not on a quarter-by-quarter basis, certainly on an annual basis.

**Moderator:** The next question is from the line of Aejas Lakhani from Unifi Capital.

**Aejas Lakhani:** I missed your opening remark. As I joined in 10 minutes late. I just wanted both color on; could you tell us given that Ibuprofen is still the cash cow and you have stated your intent to reduce the dependency on Ibuprofen? Could you state some percentage in terms of how dependent are you today and how you expect that percentage to move over the next 2 or 3 years? That's question one.





**Sanjay Chaturvedi:** If I look at my pharma business today, about 85% of my business in pharma is really Ibuprofen. If I look at going forward, I would say this number will drop to below 60% in the next 2 years or so.

**Aejas Lakhani:** I just want to ask you that for the next 2 years, considering that Ibu would still be the cash cow. Could you throw some color on how you expect '23 to pan out because you have already given a quarterly outlook for '22. So, '23 some color on how you see Ibuprofen demand-supply and prices?

**Sanjay Chaturvedi:** So, we see normalcy returning in demand and certainly what pricing levels operate in Q3 and Q4 of this year. We would expect that to continue because see Ibuprofen is essentially a commodity API and low large players are coming into Ibuprofen. The market is pretty mature. It is well established with three or four leading players and the smaller players because of the low pricing that is observed now and continuing are facing tremendous pressure. I think the small players will essentially move into other products to be able to survive. So, I see a lot of stability returning into FY23.

**Aejas Lakhani:** Could you mention how many smaller players are there in Ibu?

**Sanjay Chaturvedi:** It's hard to know but maybe between one to two small players are there in Ibuprofen.

**Aejas Lakhani:** I read in the press release that there is an expansion that you are taking place in Gabapentin. Again, Gabapentin being a commoditized, well established sure product, it has a newer age molecule which has competition coming in which is called out by another listed entity as well. Just wanted your thoughts on how you see Gabapentin as a market and whether that could be cannibalization given that Pregabalin is the newer age molecule to that?

**Sanjay Chaturvedi:** First of all, let me compliment you Aejas on your market knowledge. It's a delight to have investors who are so well-informed about not only our products but the competition that our products are going to have. I am really pleased to hear that. Pregabalin, it's a very established very large volume molecule and what do we bring to the table that is unique. What do we bring to the table is that we have a unique process with no dependence on China in our process and really, I think that is what will differentiate us and allow us to gain a foothold. Having said that, our R&D team is also very aggressively working on Pregabalin. I think in future we hope to offer both products.

**Aejas Lakhani:** When you spoke about the backward integration you were planning for across categories. You are considering these newer processes to be a part of that right? For Gaba and Prega?

**Sanjay Chaturvedi:** Yes.

**Moderator:** The next question is from the line of Thomas Priju from Alchemy Capital Management Pvt. Ltd.



**Thomas Priju:**

This is Thomas Priju from HME Capital. I had two questions. One is I can appreciate for as to see the results of your strategic roadmap will take a couple of years. But just from a historical perspective what is the main reason why Ibu prices corrected so much in the last 12 months and what gives you the confidence that the worst is over? That is question one. Two, in Ibu you all have a good market share 35% but we have seen that with the exception of DVs, company in India has done a good job of picking market leadership in multiple generic API products. You briefly mentioned that you will be investing more in technology etc. But if you could provide more color on how confident you are that the success wise of Ibuprofen that you send replicate that a couple of more products over the next 2-3 years and from where the confidence comes that you can get maybe at least 10%-20% market share in a few more products? Lastly is the strategy on only generic API's or you will try to move up the value and look at the most state of the art APIs also?

**Sanjay Chaturvedi:**

So, I think let me begin by answering you really asked three questions in there. Your first question is really why we have the confidence that demand and pricing will come back to more normal levels in Ibuprofen. Now Ibuprofen being a commodity API is driven you know the entire price level is driven by demand and supply. The supply is pretty finite and that is capped based on the existing players. The demand that we see as low today is actually artificial for two reasons. One was they were a lot of overstocking in the earlier part of COVID and that impacted not just us but all Ibuprofen suppliers. You see all Ibuprofen supplies actually had a bull run in that timeframe. Now what has happened is that they were subsequently there was a research report that came out from French medical group that talked about the low efficacy of Ibuprofen to manage COVID, but subsequently that report turned out to be untrue in terms of validations. So now I think the stocks are depleting for our customers and our customers are telling us that the demand is back and our experience of this market is that whenever the demand is back the price is also inch upwards, so that's one.

Second question that you asked me was what is our confidence level and with the exception of Divis you gave an example and you know Divis is absolutely I think one of the finest examples of API players that have managed to maintain global leadership position in multiple molecules. What gives us the confidence that we will do that? Given that we have a cost leadership position primarily through our operational excellence and backward integration in a commodity molecule like API, like Ibuprofen, based on that experience we have a high level of confidence that in select APIs that we pick that will be high volume APIs by backward integration we will replicate that story. But your point is very well taken, will we go and occupy 35% market share in those APIs, perhaps not. But certainly, we are looking at double digit market shares and those APIs as well.

The third question that you asked was will be we looking at all generic API's or are we going to look at some specialized products as well? I think given our DNA given our manufacturing capabilities and the kind of operations we have and the confidence we have in those operations we will continue to primarily be driven by generic APIs. We will not be looking at innovator APIs or that kind of business. I will certainly not be looking at molecule like a Fondaparinux or



Eribulin that requires (+70) synthetic steps that's not to be all, we will be focused on molecules with fewer number of steps that leverage the kind of chemistries where we have expertise. We will be focusing on manufacturing and operational excellence to get market share rather than pure R&D.

**Thomas Priju:** By extension you don't see yourself even in the distant future in customs synthesis business?

**Sanjay Chaturvedi:** It's hard to say that because even the customs synthesis is being driven into two parts, I'll call it the CDMO business where you have the contract development and then contract manufacturing. Within contract manufacturing there are a lot of innovative players that are offering contract manufacturing services of generic APIs not necessarily innovator API and Divis again a wonderful example that does a combination of that. We are evaluating opportunities in the contract manufacturing space, but not necessarily in the contract development space.

**Moderator:** The next question is from the line of Tanmay Krishna from BHI Advisors.

**Tanmay Krishna:** My first question is, what's the CAP utilization on Metformin right now? And what are the growth prospects for the same and is it a key strategic de-restraint product in the future?

**Sanjay Chaturvedi:** My current asset utilization in Metformin is about 50%. There is enough headroom for me to grow this business. And for your second question, absolutely it's a key product and will continue to be a strategic product in my portfolio. Having a product like Metformin offers us the ability to touch multiple customers. What happens is these customers buy Metformin from us and that opens us conversations about what are other ranges of products that they have in mind and that helps us prepare for our next round the portfolio.

**Tanmay Krishna:** I just have one more question. Does the Metformin HEL have regulatory approvals and is it currently being exported?

**Sanjay Chaturvedi:** Yes, it is currently being exported and we have regulatory approvals, we have a CEP.

**Tanmay Krishna:** One last question, I wanted to know about the PLI scheme any update on that and what do you thinking about the CAPEX going forward?

**Sanjay Chaturvedi:** So, we are very positive on the PLI scheme and we filed our application for the same.

**Moderator:** The next question is from the line of Deepak Rao, an Individual Investor.

**Deepak Rao:** My question more about maybe a guidance at the yearly level. While there is too much of a volatility at a quarterly level. I wanted to understand what are the kind of top line growth and bottom-line growth we are expecting for FY22?



**Sanjay Chaturvedi:** I would say top line growth of about a double digit (+10%) is what you should expect in terms of bottom-line growth we expect it to be flat or somewhat lower than what we have last year.

**Deepak Rao:** When you said it could be lower than what we have last year. I mean a high-level quantification I mean it will be lower by 5%-10%?

**Sanjay Chaturvedi:** I'll be in a much better position depending on the price of ibuprofen in Q3 to be able to. See two things are happening one is not only ibuprofen but even on the Phylactic side if you look at volatility that is happening, we are and it's being a specialty chemical product is governed, the cost of manufacturing is governed primarily by the cost of aesthetic acid and ethanol. There's a lot of volatility in both of these raw materials. So, these are products where the raw material pricing is changing on a weekly basis. I would have to require a crystal ball to be able to predict what these would be by the end of the year. All I would say is that as far as these kinds of products are concerned, we are very competitive and we are confident on delivering performance in line with the market.

**Deepak Rao:** Another question on known unknown I do API's that we are trying to gain traction for. How has been the performance of I we must be having some internal targets with let's say 15% or 20% capacity utilization how has been the performance so far? Is it as per our expectations? Have we been able to beat our expectations or we have not been able to reach to an expectation that we have set out for?

**Sanjay Chaturvedi:** It's a fabulous question Deepak and I think if you set your expectations high enough you will never be happy. On the other hand, if you lower your expectations to a point that they are already met you will never be unhappy. So, what philosophy aside on the new products the non-Ibuprofen part our business has not delivered the kind of profit that we want and it is understandable because that financial performance can only come once we have approvals into the regulated market and the export markets and it's really a COVID related issue.

**Deepak Rao:** So fair to say I mean when COVID and pandemic is over we would be able to get those approvals. There're no technical issues with those approval is just a kind of a pandemic induced issues?

**Sanjay Chaturvedi:** Absolutely in fact I will tell you the silver lining in all of this is that if I'm competing and I'm competitive in the Indian market I will certainly be competitive in the export market.

**Moderator:** The next question is from the line of Monish Shah from Antique Stock Broking.

**Monish Shah:** Just had one question on the export's contribution going forward what is the percentage split that you see in the next 2 to 3 years? Will it be 50-50 for domestic exports or less than that?

**Sanjay Chaturvedi:** I think exports are certainly be more than 40% of the total business that I have.



- Moderator:** The next question is from the line of Mohammad Ayaz from Aman Trading.
- Mohammad Ayaz:** So, my question is simple one question whether we are able to sustain the growth what we have achieved in FY21 or it will be lower than 21 in FY22?
- Sanjay Chaturvedi:** So FY22 as I said earlier, we should expect a 10% growth in top-line.
- Mohammad Ayaz:** In terms of profit?
- Sanjay Chaturvedi:** So, in terms of profit as I said it is going to be slightly lower than what I had in FY21. That is completely directly related to much lower asset utilization. As you're lifting give you the background here. If I have very high asset utilization for my ibuprofen it also impacts my cost position. Once the demand picks up and the prices pick up my profitability will come back but it won't be enough to make up for the loss in the first two quarters.
- Mohammad Ayaz:** In the history of splits and bonus IOL is not having any history of bonus and split? So, are you planning for that?
- Sanjay Chaturvedi:** Well, that is something that we are debating internally. We have yet to take a call on that, the board has to decide that.
- Moderator:** The next question is from the line of Aejas Lakhani from Unifi Capital.
- Aejas Lakhani:** Much appreciate the clarity with which you provided us and I'm just paraphrasing here to summarize my understanding. You had cost leadership given your capabilities and manufacturing and that only works out in molecules which have large volumes versus smaller volumes. You're going to continue to focus on what you have done in the past ibuprofen across other product right? So that's mean articulately very clear just one actually three questions on that strategy. One is if you look at your pharma segment margins EBIT margins over a period of the last 5 years, they have range that in the 17 and 18 between from a top of around 15% to a high of about 43%. We all know the pricing of ibuprofen that has been taking place in the market and as a result of that the margins keep fluctuating. So, we're aware of that and the product mix of course, but in your opinion, what is the steady state margins that you look at this segment and also as you keep building the leadership in other commoditized APIs over the period of the next 2-3 years or product exchanges where do you see this EBIT margin trajectory moving on a steady state?
- Sanjay Chaturvedi:** That's a fabulous question; let me begin by taking a step back and looking at the industry. If I look at the API industry at large there is a broad glossy and distribution of all the players. On an average players make about 20% EBIT margins in the API industry. Yes there are exceptions like Divis that consistently makes more a lot of exceptional here but even a lot of average we'll make about between 20% and 25%. So, what is our variability going forward? Our visibility is that our profitability at an EBIT margin will be higher than the industry and we will continue to



be above 20%. So, 22% to 25% is a healthy EBIT number that you should continue to see from IOL.

**Moderator:** The next question is from the line of Subrata Sarkar from Mount Intra.

**Subrata Sarkar:** My question is on the chemical side of the business so can you like throw some light on the Ethyl Acetate part of the business like we all know last quarter like this Q1 has been historical in terms of margin and pricing for Ethyl Acetate. What is the can you in terms of quantitative data can you share some data on what is the current price now in Vis-a-Vis Q1 and what is the margin after the volatility of RM price?

**Sanjay Chaturvedi:** I will break that question into two parts. First is on the demand side I would say the demand is pretty flat. In the sense we are maxed out on our capacity. Between Q1 and Q2 they will be no difference in volumes of what we sell. On the pricing however it really depends on the price of the raw materials and I would say if you ask me for what is the price of ethyl acetat today it is just above a Rs. 100. If I look at what was the price in last month it actually dropped to Rs. 90. What has been the historic highest price during the quarter? It touched Rs. 130. So again I will need a crystal ball to gauge the future and figure out how stable this is going to be. It is going to really mimic whatever the prices of acetic acid and ethanol.

**Subrata Sarkar:** On the margin side in terms of you have given a great picture on the pricing point. Now RM cost if you throw some light on the pricing of the RM cost so that we can get some understanding of what is the average Q1 margin and Vis-a-Vis right now currently where we stand? This is one question on a chemical side if you throw some light on the IBP to MCA to acetyl chloride or like what kind of margin, we are experiencing in each of them.

**Sanjay Chaturvedi:** I think there are multiple questions in what you have asked I think first I would say that the raw material trends ethanol if you look at ethanol trends that used to be typically in the Rs. 40 a kg range has gone up to 50. I think there was a brief period where for the first-time domestic ethanol became cheaper than imported ethanol. When it comes to acetic acid prices those numbers have ranged from Rs. 60 a kilo all the way up to Rs. 90 – Rs. 95 a kilo, so that's the range and that should give you an idea of what kind of margin is there. I don't want to get into the specifics of what my charging efficiencies are and therefore what my gross margin is on a product-by-product level. I think when it comes to other products that you talked about, I would urge you to look at chemicals as a bucket rather than on a product-by-product basis and when it comes to isobutyl benzene when it comes to acetyl chloride we are pretty much in line with the industry and we are currently not sending any MCA.

**Subrata Sarkar:** In that case just as small ballpark number like this quarter as it stands right now and like there will be some compression on the margin in Q2 Vis-à-vis Q1 on the ethyl acetate?

**Sanjay Chaturvedi:** We don't see that right now we still have half the quarter left.



**Moderator:** Thank you. Ladies and gentlemen that was the last question for today. I will now hand the conference over to the management for closing comments.

**Sanjay Chaturvedi:** Thank you very much. I think in terms of our concluding remarks first of all thank you all for your time. The key highlights I would say overall despite the COVID related and the other headwinds our company has shown healthy performance and it's in line with all the other leading pharma API players. We expect you to be in line with similar performance and Q3 and Q4 we'll show recovery both on top line and bottom line. The company has made fantastic progress on that credit rating. It has gone from CARE A to CARE A+ rating on a short term and then on the non-fund based working capital we've gone from CARE A1 to CARE A1+ plus. Our regulatory audit for the national regulatory authorities the plant in this quarter and we look forward to your continued support and we wish you all well. Thank you for your time your consideration, stay safe, stay healthy and thank you all very much.

**Moderator:** Thank you very much. On behalf of Antique Stock Broking Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.